



*Block*  
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FEASIBILITY ANALYSIS  
SUNKEN GARDENS RESTAURANT  
CITY OF SUNNYVALE, DEPARTMENT OF PARKS AND RECREATION

Prepared for the  
Sunnyvale Department of Parks and Recreation  
Sunnyvale, California

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**LIST OF EXHIBITS**

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| Exhibit I:   | Sunken Garden Rounds and Fee Comparisons                   |
| Exhibit II:  | Sunnyvale Municipal Golf Course Rounds and Fee Comparisons |
| Exhibit III: | Sunken Garden Rounds and Fee Comparison Graph              |
| Exhibit IV:  | Sunken Garden Monthly Sales Estimate                       |
| Exhibit V:   | One Year Cash Flow Forecast                                |
| Exhibit VI:  | Ten Year Cash Flow Projection                              |
| Exhibit VII: | Internal Rate of Return Analysis                           |

## I. PURPOSE

This report presents an evaluation of the financial feasibility of the redevelopment of the food and beverage operations at the Sunken Garden Golf Course located in Sunnyvale, California. The purpose of this analysis is to estimate the financial contribution that can be obtained by either the Department of Parks and Recreation managing the facility or by leasing the food and beverage concession to an independent operator.

The analysis was based upon a visual inspection of the facility, interviews with knowledgeable key informants familiar with the past and current uses, review of historical rounds played and fees collected at both Sunken Gardens and Sunnyvale Municipal courses and other indicators of demand for relevant services, and our knowledge of related operations elsewhere.

## II. BACKGROUND AND OBJECTIVES

The City of Sunnyvale manages two public golf courses within the city limits. Historically both courses have licensed restaurant and retail services to private entities. All of the activities operated within both golf courses are administered through the Department of Parks and Recreation, Leisure Services Section. Funding and revenues associated with operating the courses go through the Community Recreation Fund (Fund 25).

The focus of this analysis was on the food and beverage operations located at the Sunken Garden golf course. The Sunken Garden golf course is a 9-hole course with a practice driving range, located in Sunnyvale, California. Annual rounds played and fees collected at Sunken Gardens have fluctuated during the past four fiscal years.

### Sunken Gardens Round Played

| Fiscal Year | Rounds Played |
|-------------|---------------|
| 90/91       | 84,770        |
| 91/92       | 91,930        |
| 92/93       | 77,241        |
| 93/94       | 81,985        |

Annual round fluctuations during the past four fiscal years can be attributed to a combination of several events, including but not limited to course construction, policy changes on group play, closure of the restaurant, and increased green fees.

In February 1994, the operator of the food and beverage facilities at the Sunken Garden Golf Course closed the business due to a bankruptcy action. Most of the tangible assets in the restaurant were liquidated by the bankruptcy court.

The City completed asbestos abatement in the restaurant after all of the equipment was removed from the facility. The City's intention was to license the facility to a new operator after the

removal of the hazardous material. On June 21, 1994, Council approved a selection process to attract and select a new licensee to the restaurant. The intent of the City was to identify an operator that was willing to make a capital investment in improving the restaurant facility in exchange for a long-term agreement to operate the restaurant. Although 50 applicants responded to the advertisement, none of the proposals provided capital commitment to the facility improvements.

As a result of this process the review board recommended that all proposals be rejected and to consider other options to establish food and beverage services at Sunken Gardens. The alternative that was recommended by the review board is stated as follows:

"...commence building repairs and restaurant preparation and investigate other means to provide food and beverage service operations such as contracting, lease or self-operations."

To determine the economic feasibility of this alternative and provide expert opinion regarding the most effective and efficient means of operating the facilities with the greatest return on invested dollars, the City of Sunnyvale contracted with the firm of Block and Associates.

### III. STUDY SCOPE, APPROACH, AND METHODS

#### A. Scope of Services

To achieve the objective noted above, the scope of our work included the following tasks:

1. Review of all documents provided by the Sunnyvale Department of Parks and Recreation.
2. A site visit to the proposed facility to become familiar with the existing conditions and layout.
3. Review of relevant historic information on Golf Course operations in the surrounding areas.
4. Meet with key staff personnel to discuss proposed objectives, concept design, cost estimates and historical trends.
5. Interview owners/operators of food and beverage facilities located at golf courses in the surrounding areas.
6. Preparation of financial models to facilitate our analysis, findings and conclusions, and the preparation of this report, summarizing our results.

## B. Principal Assumptions

The analyses, findings and conclusions are based upon the following assumptions:

1. The proposed concession facilities will be operated by experienced and professional management.
2. The new facilities will be repaired to a quality level that is consistent with City of Sunnyvale's requirements and the facilities' quality will be maintained at that level. (The maintenance expenditures assumed in the projected budgets are considered adequate.)
3. The reports, data and documents provided by the City of Sunnyvale accurately reflect the historical operations and financial conditions of Sunken Gardens' golf course and food and beverage facility.
4. Sunken Garden golf course facilities, conditions, fees and quality of play will not materially change during the next ten years.

## C. Method of Analysis

The following analysis addresses the potential revenues that can be generated by a food and beverage concession at Sunken Gardens and the operating alternatives that will achieve the highest return to the City of Sunnyvale. Specific to the proposed location we determined the revenues and costs that would derive from a particular facility and type of service associated with that alternative.

Our methodology was designed to address the main objective stated above. To this end, we created a financial model that was sensitive to the proposed concept and potential user demands. Based on our technique we were able to construct a ten year cash flow model that estimated revenues and expenses relative to the location and type of operation.

Also, the usual procedure used by analysts and prudent investors in the types of operations addressed here is to give credence mainly to profitability based upon return on and of investment, rather than return on gross sales or assets. To determine a reasonable rate of return we identified an internal rate of return desired by operators of similar facilities.

Our analysis consists of a chain of five steps, summarized as follows:

Step 1: We analyzed the historical trends of rounds played and fees collected to establish potential correlations with food and beverage demand during each month of operations.

Step 2: We focused on the concept design and layout to determine potential number of guests served daily and to establish a consistent guest check average for each service period.

Step 3: We estimated revenues and expenses for the period of March 1, 1995 - February 28, 2004.

Step 4: Using the results of Step 3 we compared the internal rate of return with desired industry rates.

Step 5: We compared each operating scenario to identify the highest rate of return on the initial investment.

Step 6: Based upon the above analyses, we presented a summary of our main findings and conclusions.

1. Step 1: Analysis of Historical Trends

To begin our analysis of the food and beverage potential, we examined the historical trends of rounds played and fees collected at both Sunken Gardens and Sunnyvale Municipal golf courses. The purpose of this step was to determine the following:

- ❖ Correlations between the number of rounds played and the operation of a food and beverage facility.
- ❖ Seasonal trends in number of rounds played.
- ❖ Basis of annual increases and decreases in number of rounds played and fees collected.

Since the 1990/1991 fiscal year the annual number of rounds played and fees collected for Sunken Gardens have fluctuated as follows:

Sunken Garden  
Annual Percent Change of Rounds Played  
Compared to Prior Year

| <u>Fiscal</u><br><u>Year</u> | <u>%</u> |
|------------------------------|----------|
| 91/92                        | 108%     |
| 92/93                        | 84%      |
| 93/94                        | 106%     |

Sunken Garden  
Annual Percent Change of Fees Collected  
Compared to Prior Year

| <u>Fiscal</u><br><u>Year</u> | <u>%</u> |
|------------------------------|----------|
| 91/92                        | 122%     |
| 92/93                        | 96%      |
| 93/94                        | 121%     |

During our analysis we were unable to isolate the exact cause for fluctuations in each year or quantify the incremental impact, yet we were able to identify several of the areas that may have had material consequences. Each of the following events may have had an impact on the fees collected and number of rounds played in one or all of the years:

- ❖ Inclement weather conditions for a prolong period of time.
- ❖ Course construction that limited number of rounds played.
- ❖ Increase in fees per round.
- ❖ Policy change on League play.
- ❖ Closure of Food and Beverage Facility.

2. Step 2: Review Concept Design and Layout

The second step of our analysis consisted of reviewing the proposed concept design and layout to identify key issues related to efficiency, flow, customer guest check averages and customer demand. The objective of this step was to create a foundation for the financial assumptions.

Based on our review and subsequent recommendations we determined that the highest and best use for the new food and beverage facility would be as a limited service restaurant serving breakfast, lunch and banquets. The estimated guest check averages would be \$3.50, \$6.00, and \$8.50 for breakfast, lunch and banquets, respectively. The menu would be limited to soups, sandwiches, salads, pastas and a variety of daily specials.

To complete the proposed facility described above the total cost for repairs and equipment is \$275,000. These costs do not include any of the "soft costs" or intangible costs that are associated with pre-opening management salaries and wages, marketing, and opening inventory.

### 3. Step 3: Preparation of Financial Projections

To project the revenue and expense items, all of the following factors were considered:

- ❖ Size, flexibility and utilization of the facility;
- ❖ Supply and demand of the food and beverage needs at Sunken Gardens golf course; and
- ❖ The historical trends associated with rounds played and fees collected at Sunken Gardens.

The pro forma were stated in an accounting format referred to as the *Uniform System of Accounts for Restaurants* to accurately compare assumptions to industry data for similar operations.

#### a. Revenues

Our interpretation of the above information is that while opening a new restaurant is always risky, there is good potential for a new restaurant at Sunken Gardens. We estimated initial sales that reflect local restaurants and restaurants at similar golf courses in the region, estimates of demand derived from golf rounds played and fees collected, and assuming that the facility will be operated by well trained professionals who will adequately market the restaurant services. In addition, although it was not quantified, it is possible that the restaurant operations will have a positive effect on the number of rounds played at Sunken Gardens.

Revenues were estimated using the following methodology as presented in Exhibit III . We estimated food and beverage sales for March and used it as a "base month" from which to estimate revenues in other months.

Covers per week (Meals per Week) were estimated by multiplying the number of covers per turn by the numbers of turns per week for each sales period (breakfast, lunch, and banquets). Covers per turn were derived from estimates of the percentage occupancy for each meal multiplied by the number of total seats. Turns per week were estimated from the daily analysis for each meal period presented in the exhibit. We applied what we considered to be reasonable occupancy rates and turns per week based upon our evaluation of the food and beverage demand at Sunken Gardens, given our observations of representative restaurants in the region, and our experience with restaurants of this type elsewhere in the country.

Multiplying the weekly headcount by the average guest check yielded food sales by meal period. The menu would consist of moderately priced items ranging from soups and sandwiches to pasta and salad. Average guest checks are estimated to be \$3.50, \$6.00, and \$8.50 for breakfast, lunch and banquets, respectively.



We then added the expected sales for beverages. Based on similar facilities in the region, we estimated the beverage sales would contribute 40% of the total food and beverage sales, and therefore added \$3,248 for beverages. These figures yield total weekly food and beverage sales of \$8,120 for the base month sales or, approximately \$35,000 per month (multiplying \$8,120 by 4.33 weeks).

Monthly food and beverage sales were then forecasted based upon the representative base month (March) forecast. Sales in the spring and summer months are projected to be higher than the fall and winter months. This assumption is based on our expectation that golf play will be less influenced by inclement weather during the spring and summer months. The foundation for this assumption can be reflected in the number of rounds played in each period (see exhibits I and II).

Note that annual increases are projected to be 3%, equal to the expected rate of inflation. While we feel that projecting no "real" growth in sales may be conservative, especially given our optimism about the potential for a food and beverage operation of the type prescribed at that location, we are concerned about a prolonged effect of the present economy and wanted to judge the feasibility based upon reasonable but conservative estimates. We did not forecast greater increases after the first year, because we believe that the restaurant sales will be as high as they are because of the existing demand and uniqueness of the new restaurant, and we expect that there is as much of a chance that the restaurant sales will decrease as increase after the first year.

**b. Cost of Goods Sold**

The cost of goods sold for food and beverage sales are estimated based upon relevant industry data for similar type operations. If properly managed, these costs can be expected to stabilize after the first few months at 32% of revenues for food sales, and 26% of revenues for beverage sales, resulting in a total cost of goods at 30% of total food and beverage revenues.

**c. Other Income**

Other income is expected to amount to about 0.5% of total food and beverage revenues. It reflects non-food sales, such as telephone commissions, t-shirt sales and sale of other miscellaneous items.

**d. Operating Expenses**

The *Uniform System of Accounts for Restaurants* refers to "operating expenses" as "controllable expenses." Therefore, we conform with this term in our exhibits.

Salaries and wages includes all salaries and wages earned (including management salaries), bonuses, vacation pay and sick pay. Based upon industry experience at facilities having similar locations and sales volumes, this cost should not exceed 32.3% of total revenues after the first year. If managed properly, we estimate that this cost should stabilize after the first few months.

Also based upon industry experience we estimate that employee benefits will stabilize at 8.1% of total revenues. It includes employer payroll taxes, workmen's compensation, employee meals and other employee related benefits.

At a projected 5% of total revenues, direct operating expenses include such items as uniforms, linens, china, glassware, kitchen supplies, and other miscellaneous materials and supplies. In general, they include expenses related to direct service to customers.

Marketing expenses will include all promotion activities, ranging from complimentary meals to media advertising. Given our sales forecast, it will be very important for the management to effectively maintain public relations. Therefore, we have allocated 2% of total revenues per annum to go towards public functions and charity events.

Based on the type of facilities and hours of operation, we anticipate energy and utilities expenses to be 3% of total revenues.

Administrative and general expenses, such as telephone, management fees, liability insurance, and professional fees, are projected to be 5% of revenues.

Repairs and maintenance were forecast to be .5% of revenues in the first year, increasing to 2% by 1999 and then holding constant at 2% thereafter. This cost assumes that management will carry out an appropriate preventive maintenance program that will assure continued high quality of the facilities.

#### 4. Step 4: Rate of Return

In preparing Exhibit VII, we examined the estimated rate of return of the initial investment associated with the repairs of the proposed facility. We determined the minimum reasonable rate on investment from information obtained from operators of comparable enterprises, lenders to such businesses, brokers of relevant properties, consultants in the field, the most recent available published reports for the industry, and our own experience in analyzing similar enterprise investments. We concluded that a minimum reasonable rate of return on investment would be a nominal rate of 15%. This was termed the Internal Rate of Return (IRR) in the exhibit.

#### 5. Step 5: Comparison of Alternatives

We considered two alternative cash flow scenarios when examining the returns on the initial investment.

Alternative A: *License the food and beverage operation to an independent operator and collect a building use fee or rent from the operator.*

Alternative B: *The City of Sunnyvale would be responsible for daily management of the food and beverage operation. All staff would be trained by experienced management and the City of Sunnyvale would sponsor a vocational program to hire and train staff at the facility.*

Based on our analysis of the two alternatives we determined that Alternative B would provide the City of Sunnyvale with the highest rate of return (see Exhibit VII) and the greatest benefits. Under Alternative A the City of Sunnyvale would be entitled to a minimum rent or percentage of sales. Based on our revenue forecast in Exhibit VI, the highest rent that a potential operator would be willing to pay to operate the Sunken Garden's food and beverage facilities would be between 10% and 12% of total revenues. This cash flow to the city would result in an IRR, on the initial investment, between 8% and 12%.

Using the same revenue and expense estimates from Exhibit VI, Alternative B would achieve a IRR of 14.4%. In addition, the City of Sunnyvale would be contributing back to the community with a comprehensive vocational training program for food and beverage trainees.

#### 6. Step 6: Findings and Conclusions

We concluded that the City of Sunnyvale should proceed to repair the existing food and beverage facilities at the Sunken Garden golf course and operate a limited service, limited menu restaurant to cater to the current golfer demands.

We also conclude that the City of Sunnyvale should consider operating the facilities rather than select an independent operator. The benefits to the City are as follows:

- ❖ A higher IRR than can be achieved by collecting rent from an independent operator.
- ❖ Control over quality and product consistency.
- ❖ The ability to create a comprehensive vocational training program for food service employees in the community.

Exhibit I  
Sunnyvale Golf Courses  
Rounds and Fee Comparison

SUNKEN GARDENS

Sunken Gardens  
Rounds Played

| Period | Fiscal<br>Year<br>90/91 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>91/92 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>92/93 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>93/94 | Percent<br>Variance<br>to Previous |
|--------|-------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|
| 1      | 6,459                   | N/A                                | 6,515                   | 100.9%                             | 10,682                  | 164.0%                             | 9,590                   | 89.8%                              |
| 2      | 8,663                   | N/A                                | 8,966                   | 103.5%                             | 8,586                   | 95.8%                              | 8,191                   | 95.4%                              |
| 3      | 7,725                   | N/A                                | 8,096                   | 104.8%                             | 7,289                   | 90.0%                              | 6,915                   | 94.9%                              |
| 4      | 6,500                   | N/A                                | 6,108                   | 94.0%                              | 6,557                   | 107.4%                             | 6,120                   | 93.3%                              |
| 5      | 5,919                   | N/A                                | 6,927                   | 117.0%                             | 5,863                   | 84.6%                              | 5,921                   | 101.0%                             |
| 6      | 5,227                   | N/A                                | 5,739                   | 109.8%                             | 4,018                   | 70.0%                              | 4,111                   | 102.3%                             |
| 7      | 3,430                   | N/A                                | 4,719                   | 137.6%                             | 3,208                   | 68.0%                              | 4,600                   | 143.4%                             |
| 8      | 4,946                   | N/A                                | 5,182                   | 104.8%                             | 3,839                   | 74.1%                              | 4,911                   | 127.9%                             |
| 9      | 5,775                   | N/A                                | 4,702                   | 81.4%                              | 3,016                   | 64.1%                              | 5,367                   | 178.0%                             |
| 10     | 4,321                   | N/A                                | 5,896                   | 136.4%                             | 1,826                   | 31.0%                              | 6,067                   | 332.3%                             |
| 11     | 7,274                   | N/A                                | 8,171                   | 112.3%                             | 7,130                   | 87.3%                              | 6,210                   | 87.1%                              |
| 12     | 7,545                   | N/A                                | 8,746                   | 115.9%                             | 7,722                   | 88.3%                              | 6,820                   | 88.3%                              |
| 13     | 10,986                  | N/A                                | 12,163                  | 110.7%                             | 7,505                   | 61.7%                              | 7,162                   | 95.4%                              |
| Total  | 84,770                  | N/A                                | 91,930                  | 108.4%                             | 77,241                  | 84.0%                              | 81,985                  | 106.1%                             |

Sunken Gardens  
Fees Paid

| Period | Fiscal<br>Year<br>90/91 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>91/92 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>92/93 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>93/94 | Percent<br>Variance<br>to Previous |
|--------|-------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|
| 1      | \$38,730                | N/A                                | \$42,687                | 110.2%                             | \$79,388                | 186.0%                             | \$82,538                | 104.0%                             |
| 2      | \$48,903                | N/A                                | \$58,524                | 119.7%                             | \$63,106                | 107.8%                             | \$69,052                | 109.4%                             |
| 3      | \$45,598                | N/A                                | \$53,206                | 116.7%                             | \$54,127                | 101.7%                             | \$59,251                | 109.5%                             |
| 4      | \$37,500                | N/A                                | \$39,126                | 104.3%                             | \$48,119                | 123.0%                             | \$51,791                | 107.6%                             |
| 5      | \$33,949                | N/A                                | \$45,364                | 133.6%                             | \$43,200                | 95.2%                              | \$49,881                | 115.5%                             |
| 6      | \$29,981                | N/A                                | \$36,892                | 123.1%                             | \$30,439                | 82.5%                              | \$35,514                | 116.7%                             |
| 7      | \$19,774                | N/A                                | \$30,591                | 154.7%                             | \$24,670                | 80.6%                              | \$39,182                | 158.8%                             |
| 8      | \$28,567                | N/A                                | \$33,907                | 118.7%                             | \$28,010                | 82.6%                              | \$41,779                | 149.2%                             |
| 9      | \$33,983                | N/A                                | \$31,240                | 91.9%                              | \$24,043                | 77.0%                              | \$44,840                | 186.5%                             |
| 10     | \$24,262                | N/A                                | \$38,094                | 157.0%                             | \$16,785                | 44.1%                              | \$51,088                | 304.4%                             |
| 11     | \$41,219                | N/A                                | \$52,587                | 127.6%                             | \$51,748                | 98.4%                              | \$52,074                | 100.6%                             |
| 12     | \$42,774                | N/A                                | \$57,326                | 134.0%                             | \$56,985                | 99.4%                              | \$57,908                | 101.6%                             |
| 13     | \$64,853                | N/A                                | \$81,380                | 125.5%                             | \$54,849                | 67.4%                              | \$60,375                | 110.1%                             |
| Total  | \$490,093               | N/A                                | \$600,924               | 122.6%                             | \$575,469               | 95.8%                              | \$695,273               | 120.8%                             |

Exhibit II  
Sunnyvale Golf Courses  
Rounds and Fee Comparison

SUNNYVALE MUNICIPAL

Sunnyvale Municipal  
Rounds Played

| Period | Fiscal<br>Year<br>90/91 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>91/92 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>92/93 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>93/94 | Percent<br>Variance<br>to Previous |
|--------|-------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|
| 1      | 6,714                   | N/A                                | 7,157                   | 106.6%                             | 11,456                  | 160.1%                             | 10,690                  | 93.3%                              |
| 2      | 8,862                   | N/A                                | 9,600                   | 108.3%                             | 9,317                   | 97.1%                              | 9,316                   | 100.0%                             |
| 3      | 8,385                   | N/A                                | 8,885                   | 106.0%                             | 8,069                   | 90.8%                              | 8,059                   | 99.9%                              |
| 4      | 6,871                   | N/A                                | 7,768                   | 113.1%                             | 7,357                   | 94.7%                              | 6,993                   | 95.1%                              |
| 5      | 6,404                   | N/A                                | 6,656                   | 103.9%                             | 6,195                   | 93.1%                              | 6,487                   | 104.7%                             |
| 6      | 5,341                   | N/A                                | 6,001                   | 112.4%                             | 4,497                   | 74.9%                              | 4,760                   | 105.8%                             |
| 7      | 3,641                   | N/A                                | 4,965                   | 136.4%                             | 3,771                   | 76.0%                              | 5,400                   | 143.2%                             |
| 8      | 5,299                   | N/A                                | 5,285                   | 99.7%                              | 5,706                   | 108.0%                             | 5,633                   | 98.7%                              |
| 9      | 6,120                   | N/A                                | 5,530                   | 90.4%                              | 6,067                   | 109.7%                             | 6,457                   | 106.4%                             |
| 10     | 4,832                   | N/A                                | 6,866                   | 142.1%                             | 7,451                   | 108.5%                             | 7,547                   | 101.3%                             |
| 11     | 7,843                   | N/A                                | 8,647                   | 110.3%                             | 8,715                   | 100.8%                             | 7,912                   | 90.8%                              |
| 12     | 8,772                   | N/A                                | 9,559                   | 109.0%                             | 9,224                   | 96.5%                              | 8,801                   | 95.4%                              |
| 13     | 12,567                  | N/A                                | 13,086                  | 104.1%                             | 9,033                   | 69.0%                              | 8,800                   | 97.4%                              |
| Total  | 91,651                  | N/A                                | 100,005                 | 109.1%                             | 96,858                  | 96.9%                              | 96,855                  | 100.0%                             |

Sunnyvale Municipal  
Fees Paid

| Period | Fiscal<br>Year<br>90/91 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>91/92 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>92/93 | Percent<br>Variance<br>to Previous | Fiscal<br>Year<br>93/94 | Percent<br>Variance<br>to Previous |
|--------|-------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|-------------------------|------------------------------------|
| 1      | \$93,565                | N/A                                | \$108,433               | 115.9%                             | \$190,805               | 176.0%                             | \$198,367               | 104.0%                             |
| 2      | \$117,164               | N/A                                | \$145,631               | 124.3%                             | \$154,621               | 106.2%                             | \$173,172               | 112.0%                             |
| 3      | \$117,192               | N/A                                | \$136,566               | 116.5%                             | \$136,690               | 100.1%                             | \$151,003               | 110.5%                             |
| 4      | \$97,073                | N/A                                | \$120,085               | 123.7%                             | \$125,968               | 104.9%                             | \$130,710               | 103.8%                             |
| 5      | \$91,811                | N/A                                | \$105,394               | 114.8%                             | \$106,972               | 101.5%                             | \$121,148               | 113.3%                             |
| 6      | \$76,402                | N/A                                | \$95,987                | 125.6%                             | \$79,582                | 82.9%                              | \$90,151                | 113.3%                             |
| 7      | \$49,966                | N/A                                | \$78,882                | 157.9%                             | \$66,821                | 84.7%                              | \$103,914               | 155.5%                             |
| 8      | \$73,542                | N/A                                | \$85,246                | 115.9%                             | \$97,540                | 114.4%                             | \$105,755               | 108.4%                             |
| 9      | \$85,075                | N/A                                | \$88,696                | 104.3%                             | \$103,798               | 117.0%                             | \$119,335               | 115.0%                             |
| 10     | \$67,602                | N/A                                | \$107,540               | 159.1%                             | \$124,827               | 116.1%                             | \$138,681               | 111.1%                             |
| 11     | \$108,710               | N/A                                | \$132,246               | 121.7%                             | \$142,064               | 107.4%                             | \$142,977               | 100.6%                             |
| 12     | \$120,776               | N/A                                | \$145,382               | 120.4%                             | \$153,497               | 105.6%                             | \$163,567               | 106.6%                             |
| 13     | \$175,625               | N/A                                | \$201,346               | 114.6%                             | \$145,392               | 72.2%                              | \$156,764               | 107.8%                             |
| Total  | \$1,274,503             | N/A                                | \$1,551,434             | 121.7%                             | \$1,628,577             | 105.0%                             | \$1,795,544             | 110.3%                             |

Exhibit III  
SUNKEN GARDENS  
Rounds and Fee Comparison Graphs

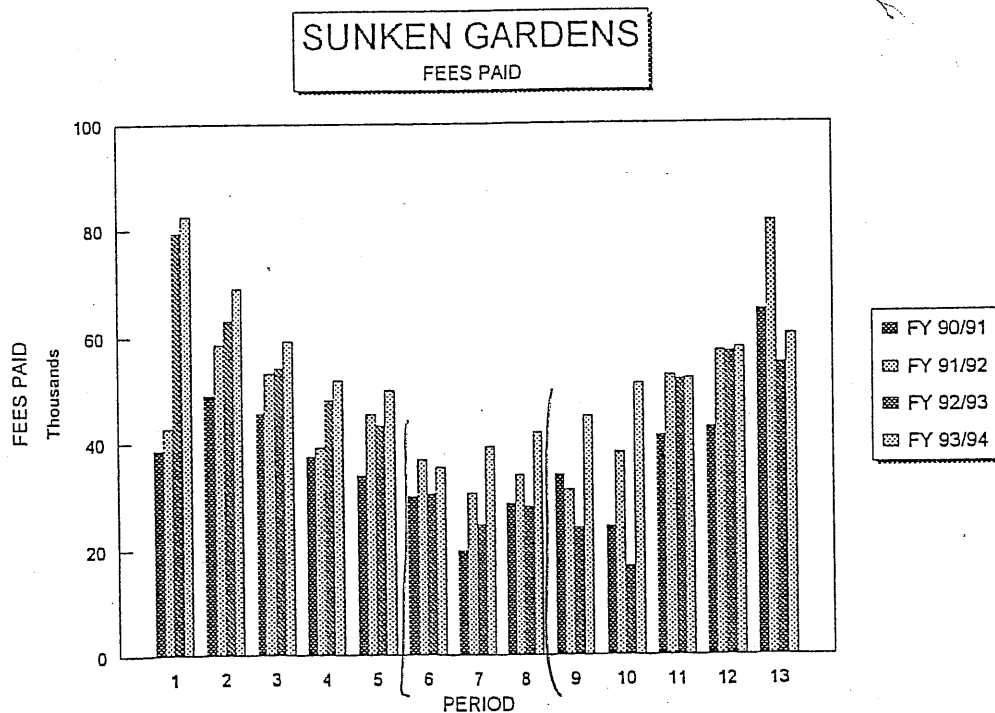
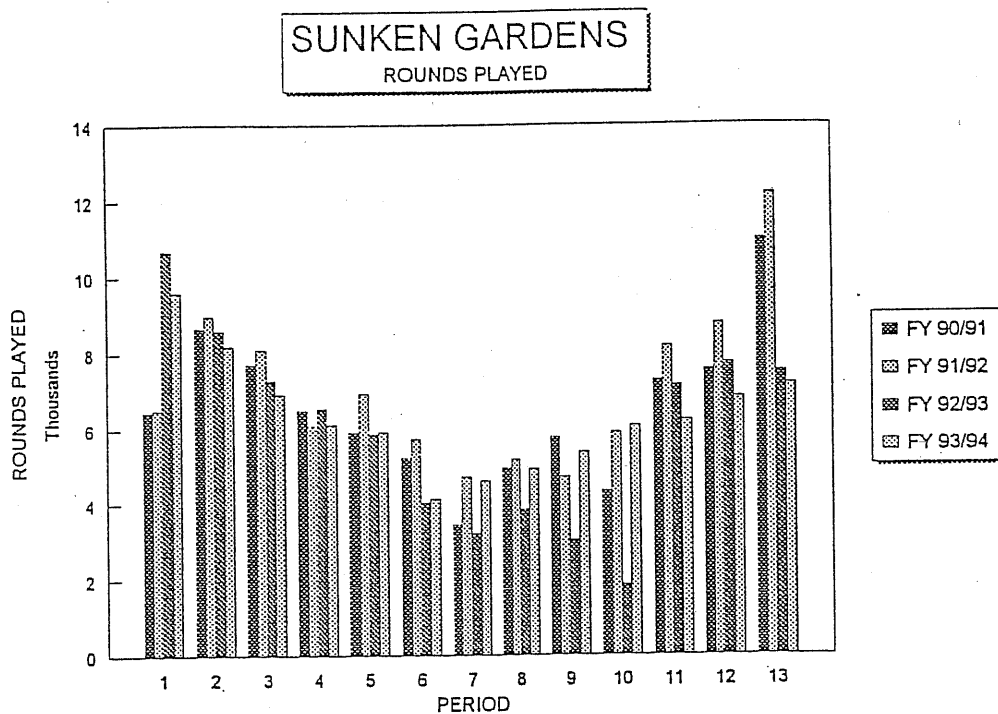


EXHIBIT IV

SUNKEN GARDENS  
MONTHLY SALES ESTIMATE  
(Rounded to the Nearest Thousand)

60

NUMBER OF SEATS:

| SERVING PERIOD | Number of Seats | Occupancy % | Covers Per Period | Turns Per Week | Meals Per Week | Food Check Ave. | Total Food Sales |
|----------------|-----------------|-------------|-------------------|----------------|----------------|-----------------|------------------|
| BREAKFAST      | 60              | 80.00%      | 48                | 8.5            | 408.0          | \$3.50          | \$1,428          |
| LUNCH          | 60              | 80.00%      | 48                | 9              | 432.0          | \$6.00          | \$2,593          |
| BANQUETS       | 50              | 100.00%     | 50                | 2              | 100.0          | \$8.50          | \$851            |

SALES BREAKDOWN

TOTAL FOOD SALES = \$4,872  
BEVERAGE % = 40.00%  
WEEKLY SALES: \$8,120

FIRST MONTH SALES

\$35,000 (rounded)

URNS PER WEEK

| DAYS OF WEEK | Sunday | Monday | Tuesday | Wednesday | Thursday | Friday | Saturday | Total Turns |
|--------------|--------|--------|---------|-----------|----------|--------|----------|-------------|
| BREAKFAST    | 1.75   | 0.75   | 1       | 1         | 1        | 1      | 2        | 8.5         |
| LUNCH        | 2      | 1      | 1       | 1         | 1        | 1      | 2        | 9           |
| BANQUETS     | 0      | 0      | 0       | 0         | 1        | 1      | 0        | 2           |

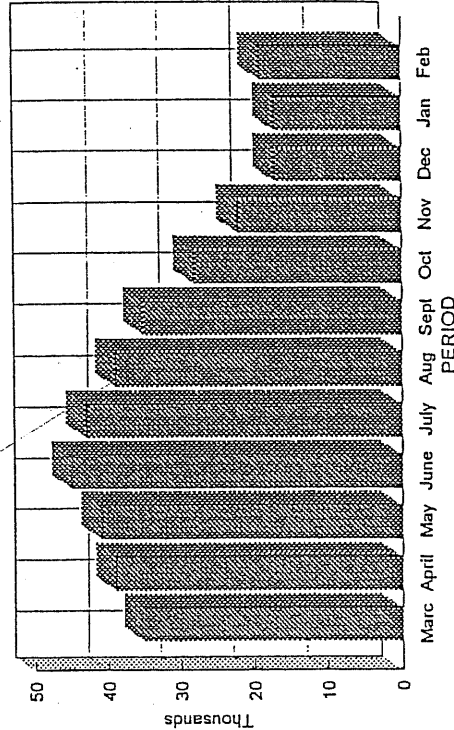
PROJECTED MONTHLY SALES TREND

| Period: | Percent                | Monthly Revenues |
|---------|------------------------|------------------|
| March   | 100.00% of projections | \$35,000         |
| April   | 110.00% of 1st period  | \$39,000         |
| May     | 105.00% of 2nd period  | \$41,000         |
| June    | 110.00% of 3rd period  | \$45,000         |
| July    | 95.00% of 4th period   | \$43,000         |
| Aug     | 90.00% of 5th period   | \$39,000         |
| Sept    | 90.00% of 6th period   | \$35,000         |
| Oct     | 80.00% of 7th period   | \$28,000         |
| Nov     | 80.00% of 8th period   | \$22,000         |
| Dec     | 75.00% of 9th period   | \$17,000         |
| Jan     | 100.00% of 10th period | \$17,000         |
| Feb     | 110.00% of 11th period | \$19,000         |

Total Revenues

\$380,000

MONTHLY PROJECTED REVENUES



1995

1996

**EXHIBIT V**  
**SUNKEN GARDENS FOOD AND BEVERAGE**  
**FIRST YEAR CASH FLOW PROJECTIONS**  
**ONE YEAR SUMMARY RELATIVE TO PERCENTAGE**

ONE YEAR CASH FLOW FORECAST  
 "MOST LIKELY" CASE SCENARIO  
 WITH OPTIMAL OPERATING LEVELS

FOR THE PERIOD: (Assumed)  
 3/01/95 - 2/29/96

| FOR THE PERIOD: (Assumed)<br>3/01/95 - 2/28/96 |               |             |              |              |                |                   |                 |                  |                  |                 |                  |        |         |        |
|--|---------------|-------------|--------------|--------------|----------------|-------------------|-----------------|------------------|------------------|-----------------|------------------|--------|---------|--------|
| March<br>1995                                  | April<br>1995 | May<br>1995 | June<br>1995 | July<br>1995 | August<br>1995 | September<br>1995 | October<br>1995 | November<br>1995 | December<br>1995 | January<br>1996 | February<br>1996 | TOTALS |         |        |
| AMOUNT   | %             | AMOUNT      | %            | AMOUNT       | %              | AMOUNT            | %               | AMOUNT           | %                | AMOUNT          | %                | AMOUNT | %       |        |
| REVENUE  |               |             |              |              |                |                   |                 |                  |                  |                 |                  |        |         |        |
| Food   | 21,000        | 60.0%       | 23,400       | 60.0%        | 24,500         | 60.0%             | 27,000          | 60.0%            | 25,800           | 60.0%           | 16,800           | 60.0%  | 10,200  | 60.0%  |
| Beverage                                       | 11,000        | 40.0%       | 15,600       | 40.0%        | 16,400         | 40.0%             | 17,200          | 40.0%            | 18,200           | 40.0%           | 11,200           | 40.0%  | 6,800   | 40.0%  |
| Total Revenues                                 | 35,000        | 100.0%      | 39,000       | 100.0%       | 41,000         | 100.0%            | 44,000          | 100.0%           | 44,000           | 100.0%          | 28,000           | 100.0% | 17,000  | 100.0% |
| COST OF SALES *                                |               |             |              |              |                |                   |                 |                  |                  |                 |                  |        |         |        |
| Food   | 7,560         | 36.0%       | 8,190        | 35.0%        | 8,640          | 32.0%             | 8,560           | 32.0%            | 6,720            | 32.0%           | 5,376            | 32.0%  | 3,264   | 32.0%  |
| Beverage                                       | 4,200         | 30.0%       | 4,680        | 30.0%        | 4,264          | 26.0%             | 4,472           | 28.0%            | 3,640            | 26.0%           | 2,912            | 26.0%  | 1,768   | 26.0%  |
| Total Cost of Sales                            | 11,760        | 33.6%       | 12,870       | 33.0%        | 12,904         | 28.6%             | 13,032          | 29.6%            | 10,360           | 29.6%           | 8,288            | 29.6%  | 5,032   | 29.6%  |
| GROSS PROFIT                                   | 23,240        | 66.4%       | 26,130       | 70.4%        | 28,884         | 70.4%             | 30,272          | 70.4%            | 27,456           | 70.4%           | 19,712           | 70.4%  | 11,968  | 70.4%  |
| Other Income                                   | 175           | 0.5%        | 195          | 0.5%         | 205            | 0.5%              | 215             | 0.5%             | 175              | 0.5%            | 140              | 0.5%   | 85      | 0.5%   |
| TOTAL INCOME                                   | 23,415        | 66.8%       | 26,325       | 67.5%        | 29,069         | 70.9%             | 30,487          | 70.9%            | 27,651           | 70.9%           | 19,852           | 70.9%  | 12,053  | 70.9%  |
| CONTROLLABLE EXPENSES                          |               |             |              |              |                |                   |                 |                  |                  |                 |                  |        |         |        |
| Salaries & Wages                               | 13,125        | 37.5%       | 14,235       | 34.0%        | 13,940         | 34.0%             | 15,075          | 33.5%            | 11,725           | 33.5%           | 9,380            | 33.5%  | 5,695   | 33.5%  |
| Employee Benefits                              | 3,281         | 9.4%        | 3,599        | 9.1%         | 3,485          | 8.5%              | 3,769           | 8.4%             | 2,931            | 8.4%            | 2,345            | 8.4%   | 1,424   | 8.4%   |
| Direct Operating Expense                       | 1,750         | 5.0%        | 1,950        | 5.0%         | 2,050          | 5.0%              | 2,250           | 5.0%             | 1,750            | 5.0%            | 1,400            | 5.0%   | 850     | 5.0%   |
| Music & Entertainment                          | 0             | 0.0%        | 0            | 0.0%         | 0              | 0.0%              | 0               | 0.0%             | 0                | 0.0%            | 0                | 0.0%   | 0       | 0.0%   |
| Marketing                                      | 1,050         | 3.0%        | 780          | 2.0%         | 820            | 2.0%              | 900             | 2.0%             | 700              | 2.0%            | 560              | 2.0%   | 340     | 2.0%   |
| Energy & Utility                               | 1,050         | 3.0%        | 1,170        | 3.0%         | 1,230          | 3.0%              | 1,350           | 3.0%             | 1,050            | 3.0%            | 840              | 3.0%   | 510     | 3.0%   |
| Admin & General                                | 1,750         | 5.0%        | 1,950        | 5.0%         | 2,050          | 5.0%              | 2,250           | 5.0%             | 1,750            | 5.0%            | 1,400            | 5.0%   | 850     | 5.0%   |
| Repairs & Maintenance                          | 175           | 0.5%        | 195          | 0.5%         | 205            | 0.5%              | 215             | 0.5%             | 175              | 0.5%            | 140              | 0.5%   | 85      | 0.5%   |
| Total Controllable Costs                       | 22,181        | 63.4%       | 23,839       | 61.1%        | 23,780         | 58.0%             | 25,819          | 57.4%            | 20,081           | 57.4%           | 16,065           | 57.4%  | 9,754   | 57.4%  |
| INCOME FROM OPERATIONS<br>(Before Fixed Costs) | 1,234         | 3.5%        | 2,486        | 6.4%         | 5,289          | 12.9%             | 6,086           | 13.5%            | 5,816            | 13.5%           | 4,734            | 13.5%  | 2,299   | 13.5%  |
| FIXED COSTS                                    |               |             |              |              |                |                   |                 |                  |                  |                 |                  |        |         |        |
| CAM Charges                                    | 333           | 1.0%        | 333          | 0.8%         | 333            | 0.8%              | 333             | 0.8%             | 333              | 1.0%            | 333              | 1.2%   | 333     | 2.0%   |
| Equipment Lease                                | 300           | 0.8%        | 300          | 0.7%         | 300            | 0.7%              | 300             | 0.7%             | 300              | 0.8%            | 300              | 1.1%   | 300     | 1.8%   |
| Management Fee                                 | 1,400         | 4.0%        | 1,560        | 4.0%         | 1,640          | 4.0%              | 1,800           | 4.0%             | 1,400            | 4.0%            | 1,200            | 4.0%   | 680     | 4.0%   |
| Rent   | 5,125         | 14.5%       | 5,125        | 13.1%        | 5,125          | 12.5%             | 5,125           | 11.9%            | 5,125            | 14.5%           | 5,125            | 18.3%  | 5,125   | 30.1%  |
| Sub-total                                      | 7,158         | 20.5%       | 7,318        | 18.8%        | 7,338          | 16.8%             | 7,658           | 16.8%            | 7,158            | 20.5%           | 6,878            | 24.4%  | 6,438   | 37.8%  |
| EBITD**  | (5,924)       | -16.9%      | (4,832)      | -12.4%       | (2,103)        | -5.1%             | (1,662)         | -3.8%            | (2,043)          | -6.2%           | (3,091)          | -11.0% | (4,139) | -24.3% |



EXHIBIT VI  
SUNKEN GARDENS FOOD AND BEVERAGE  
10 YEAR SUMMARY RELATIVE TO PERCENTAGE

TEN YEAR CASH FLOW PROJECTION  
"MOST" LIKELY CASE SCENARIO  
(Expressed in Inflated Dollars)

|   | Fiscal Year 1996 |        | Fiscal Year 1997 |        | Fiscal Year 1998 |        | Fiscal Year 1999 |        | Fiscal Year 2000 |        | Fiscal Year 2001 |        | Fiscal Year 2002 |        | Fiscal Year 2003 |        | Fiscal Year 2004 |        |
|---|------------------|--------|------------------|--------|------------------|--------|------------------|--------|------------------|--------|------------------|--------|------------------|--------|------------------|--------|------------------|--------|
|   | AMOUNT           | %      | AMOUNT           | %      | AMOUNT           | %      | AMOUNT           | %      | AMOUNT           | %      | AMOUNT           | %      | AMOUNT           | %      | AMOUNT           | %      | AMOUNT           | %      |
| FOR THE PERIOD: (Assumed)<br>FISCAL YEAR BEGINNING<br>3/01/95 - 2/28/04 |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |
| REVENUE *   |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |
| Food  | \$228,000        | 60.0%  | \$234,840        | 60.0%  | \$241,885        | 60.0%  | \$249,142        | 60.0%  | \$256,616        | 60.0%  | \$264,314        | 60.0%  | \$272,244        | 60.0%  | \$280,411        | 60.0%  | \$288,824        | 60.0%  |
| Beverage  | \$152,000        | 40.0%  | \$156,560        | 40.0%  | \$161,257        | 40.0%  | \$165,093        | 40.0%  | \$170,077        | 40.0%  | \$175,210        | 40.0%  | \$181,496        | 40.0%  | \$186,941        | 40.0%  | \$192,549        | 40.0%  |
| Total Revenues  | \$380,000        | 100.0% | \$391,400        | 100.0% | \$403,142        | 100.0% | \$415,235        | 100.0% | \$427,693        | 100.0% | \$440,524        | 100.0% | \$463,740        | 100.0% | \$467,352        | 100.0% | \$481,373        | 100.0% |
| COST OF SALES **  |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |
| Food  | \$74,502         | 32.7%  | \$75,149         | 32.0%  | \$77,403         | 32.0%  | \$79,725         | 32.0%  | \$82,117         | 32.0%  | \$84,581         | 32.0%  | \$87,118         | 32.0%  | \$89,732         | 32.0%  | \$92,424         | 32.0%  |
| Beverage  | \$40,704         | 26.0%  | \$40,706         | 26.0%  | \$41,977         | 26.0%  | \$43,185         | 26.0%  | \$44,480         | 26.0%  | \$45,815         | 26.0%  | \$47,189         | 26.0%  | \$48,605         | 26.0%  | \$50,063         | 26.0%  |
| Total Cost of Sales   | \$115,206        | 30.3%  | \$115,854        | 29.6%  | \$119,330        | 29.6%  | \$122,910        | 29.6%  | \$126,597        | 29.6%  | \$130,395        | 29.6%  | \$134,307        | 29.6%  | \$138,336        | 29.6%  | \$142,486        | 29.6%  |
| GROSS PROFIT  | \$264,794        | 76.0%  | \$275,546        | 76.0%  | \$283,812        | 76.0%  | \$292,326        | 76.0%  | \$301,096        | 76.0%  | \$310,129        | 76.0%  | \$319,433        | 76.0%  | \$329,016        | 76.0%  | \$338,886        | 76.0%  |
| Other Income  | \$1,900          | 0.5%   | \$1,957          | 0.5%   | \$2,016          | 0.5%   | \$2,076          | 0.5%   | \$2,138          | 0.5%   | \$2,203          | 0.5%   | \$2,269          | 0.5%   | \$2,337          | 0.5%   | \$2,407          | 0.5%   |
| TOTAL INCOME  | \$266,694        | 70.2%  | \$273,589        | 69.9%  | \$281,796        | 69.9%  | \$290,250        | 69.9%  | \$298,958        | 69.9%  | \$307,926        | 69.9%  | \$317,164        | 69.9%  | \$326,679        | 69.9%  | \$336,479        | 69.9%  |
| CONTROLLABLE EXPENSES   |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |                  |        |
| Salaries & Wages  | \$130,076        | 34.2%  | \$126,422        | 32.3%  | \$130,215        | 32.3%  | \$134,121        | 32.3%  | \$138,145        | 32.3%  | \$142,289        | 32.3%  | \$146,568        | 32.3%  | \$150,955        | 32.3%  | \$155,483        | 32.3%  |
| Employee Benefits   | \$32,519         | 8.6%   | \$31,606         | 8.1%   | \$32,564         | 8.1%   | \$33,530         | 8.1%   | \$34,536         | 8.1%   | \$35,572         | 8.1%   | \$36,639         | 8.1%   | \$37,739         | 8.1%   | \$38,871         | 8.1%   |
| Direct Operating Expense  | \$19,000         | 5.0%   | \$19,570         | 5.0%   | \$20,157         | 5.0%   | \$20,762         | 5.0%   | \$21,385         | 5.0%   | \$22,026         | 5.0%   | \$22,687         | 5.0%   | \$23,368         | 5.0%   | \$24,069         | 5.0%   |
| Music & Entertainment   | \$0              | 0.0%   | \$0              | 0.0%   | \$0              | 0.0%   | \$0              | 0.0%   | \$0              | 0.0%   | \$0              | 0.0%   | \$0              | 0.0%   | \$0              | 0.0%   | \$0              | 0.0%   |
| Marketing   | \$7,950          | 2.1%   | \$7,828          | 2.0%   | \$8,083          | 2.0%   | \$8,305          | 2.0%   | \$8,554          | 2.0%   | \$8,810          | 2.0%   | \$9,075          | 2.0%   | \$9,347          | 2.0%   | \$9,627          | 2.0%   |
| Energy & Utility  | \$11,400         | 3.0%   | \$11,742         | 3.0%   | \$12,094         | 3.0%   | \$12,457         | 3.0%   | \$12,831         | 3.0%   | \$13,218         | 3.0%   | \$13,612         | 3.0%   | \$14,021         | 3.0%   | \$14,441         | 3.0%   |
| Admin. & General  | \$19,000         | 5.0%   | \$19,570         | 5.0%   | \$20,157         | 5.0%   | \$20,762         | 5.0%   | \$21,385         | 5.0%   | \$22,026         | 5.0%   | \$22,687         | 5.0%   | \$23,368         | 5.0%   | \$24,069         | 5.0%   |
| Repairs & Maintenance   | \$1,900          | 0.5%   | \$3,914          | 1.0%   | \$6,047          | 1.5%   | \$8,229          | 1.5%   | \$8,554          | 2.0%   | \$9,810          | 2.0%   | \$9,075          | 2.0%   | \$9,347          | 2.0%   | \$9,627          | 2.0%   |
| Total Controllable Costs  | \$221,844        | 58.4%  | \$220,652        | 56.4%  | \$229,287        | 56.9%  | \$236,166        | 56.9%  | \$245,389        | 57.4%  | \$252,751        | 57.4%  | \$260,333        | 57.4%  | \$268,143        | 57.4%  | \$276,188        | 57.4%  |
| INCOME FROM OPERATIONS<br>(Before Fixed Costs)                          | \$44,850         | 11.8%  | \$52,937         | 13.5%  | \$52,509         | 13.0%  | \$54,085         | 13.0%  | \$55,176         | 12.5%  | \$56,831         | 12.5%  | \$58,536         | 12.5%  | \$60,292         | 12.5%  | \$62,101         | 12.5%  |

\* Note: Revenues Increase by 3% Compounded Annually

\*\*Note: Food and Beverage Costs are Expressed as a Percentage of Individual Revenues

EXHIBIT VII  
SUNKEN GARDENS FOOD AND BEVERAGE  
Capital Budgeting  
INTERNAL RATE OF RETURN ANALYSIS

Inputs

|                                  |           |
|----------------------------------|-----------|
| Initial Investment (Approximate) | \$275,000 |
| Capital Reserve (Years 1-5)      | \$0       |
| Years                            | 10        |
| IRR Guess Rate                   | 15.00%    |
| Discount Rate                    | 15.00%    |

Analysis

Internal Rate of Return 14.36%  
Net Present Value of Cash Flow \$267,953  
Net Present Value (\$7,047)

| Year    | Outflows  | Inflows  | Net Cash    |
|---------|-----------|----------|-------------|
| Year 0  | \$275,000 |          | (\$275,000) |
| Year 1  | \$0       | \$44,850 | \$44,850    |
| Year 2  | \$0       | \$52,937 | \$52,937    |
| Year 3  | \$0       | \$52,509 | \$52,509    |
| Year 4  | \$0       | \$54,085 | \$54,085    |
| Year 5  | \$0       | \$53,569 | \$53,569    |
| Year 6  | \$0       | \$55,176 | \$55,176    |
| Year 7  | \$0       | \$56,831 | \$56,831    |
| Year 8  | \$0       | \$58,536 | \$58,536    |
| Year 9  | \$0       | \$60,292 | \$60,292    |
| Year 10 | \$0       | \$62,101 | \$62,101    |

Note: Years 6-10 Inflated by 3% Compounded Annually